

Message Text

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ACTION TRSE-00

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C O R R E C T E D C O P Y --PARA FIVE --

E. O. 11652: ADS, DECLAS 12/31/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ARRANGEMENT FOR UTILIZATION OF

CANADIAN CONTRIBUTION TO MULTI-PURPOSE SPECIAL FUNDS

USADB

FOR NAC AGENCIES

PASS TREASURY FOR ZINMAN

SUMMARY: IF ADB CAN ARRANGE TO UTILIZE AT LEAST \$8 MILLION OF CANADA'S \$21.55 MILLION UNCOMMITTED MULTI-PURPOSE SPECIAL FUNDS (MPSF) CONTRIBUTION IN NEAR FUTURE, CANADIAN GOVT. WILL AGREE TO RELEASE \$2 MILLION OF REMAINING CONTRIBUTION TO FINANCE LOCAL EXPENDITURES AND WILL UNTIE BALANCE OF \$11.55 MILLION. BANK HAS PRESENTED FOR CONSIDERATION OF BOARD OF DIRECTORS PROPOSAL FOR UTILIZATION OF CANADIAN TIED FUNDS. USADB RECOMMENDS APPROVAL. END SUMMARY.

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1. ADB DOC. R136-75 ON ABOVE SUBJECT WAS POUCHED DECEMBER 24

AND WILL BE CONSIDERED BY BOARD OF DIRECTORS JANUARY 22.

2. IN DECEMBER 1968 CANADA MADE \$26.24 MILLION CONTRIBUTION TO MPSF, WHICH WAS INITIALLY TIED TO PROCUREMENT OF CANADIAN GOODS AND SERVICES. IN 1973 TYING PROVISION WAS RELAXED TO INCLUDE PROCUREMENT FROM DEVELOPING MEMBER COUNTRIES. HOWEVER, AS OF OCTOBER 31, 1975, ONLY ABOUT \$4 MILLION HAD BEEN COMMITTED TO FINANCE CANADIAN PROCUREMENT AND \$0.69 MILLION FOR DEVELOPING MEMBER COUNTRY PROCUREMENT. THUS, ABOUT \$21.55 MILLION, OR OVER 80 PERCENT OF TOTAL CONTRIBUTION, STILL REMAINS UNCOMMITTED. (CANADA HAS ALSO MADE UNTIED \$10 MILLION CONTRIBUTION TO ASIAN DEVELOPMENT FUND.)

3. CONSULTATIONS HAVE BEEN HELD BETWEEN BANK AND CANADIAN AUTHORITIES TO SEEK ARRANGEMENT FOR POSSIBLE UNTYING OF CANADIAN CONTRIBUTION. FOLLOWING THESE CONSULTATIONS, CANADIAN AUTHORITIES HAVE AGREED THAT, IF BANK CAN MAKE FIRM ARRANGEMENTS IN NEAR FUTURE TO UTILIZE AT LEAST \$8 MILLION OF REMAINING TIED CONTRIBUTION FOR FINANCING PROCUREMENT IN CANADA, CANADIAN GOVERNMENT WILL AGREE TO RELEASE \$2 MILLION FOR USE BY BANK TO FINANCE LOCAL EXPENDITURES, AND WILL AGREE TO UNTIE BALANCE OF CONTRIBUTION.

4. DOCUMENT NOTES THAT ON NOVEMBER 28, 1974, BOARD OF DIRECTORS APPROVED \$47.0 MILLION IN BLENDED LOANS (\$34 MILLION FROM SPECIAL FUNDS AND \$13 MILLION FROM ORDINARY CAPITAL RESOURCES) TO PAKISTAN TO FINANCE FOREX COSTS OF EXTENDING TARBELA POWERHOUSE AND INSTALLING TWO 175 MW GENERATING UNITS. IN 1975, CANADIAN FIRM (ACRES INTERNATIONAL LTD.) WAS SELECTED TO CARRY OUT ENGINEERING SERVICES FOR PROJECT AT NEGOTIATED PRICE OF ABOUT \$1,838,000, WHICH WAS TO BE FINANCED FROM ORDINARY CAPITAL LOAN. BANK HAS PROPOSED TO TRANSFER FINANCING OF THIS CONTRACT TO SPECIAL FUNDS LOAN AND ALLOCATE PORTION OF SF CONTINGENCY ALLOWANCE TO FINANCE CONTRACT, IN ORDER TO CHARGE IT AGAINST CANADIAN MPSF CONTRIBUTION. THIS WOULD BRING TOTAL COMMITMENTS AGAINST CANADIAN MPSF CONTRIBUTION TO \$6.53 MILLION AND REDUCE TO ABOUT \$6.2 MILLION OFFICIAL USE

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MILLION THE MINIMUM AMOUNT OF COMMITMENTS STILL REQUIRED TO PERMIT IMPLEMENTATION OF PROPOSAL INDICATED IN PARA. 3 ABOVE.

5. BANK, THEREFORE, PROPOSES TO DESIGNATE CANADA AS ELIGIBLE SOURCE COUNTRY FOR PROCUREMENT OF PLANT ELECTRICAL EQUIPMENT (500 KV TRANSFORMERS AND ALLIED EQUIPMENT) VALUED AT \$6.5 MILLION WHICH WAS ALREADY ALLOCATED TO BE

FINANCED OUT OF SPECIAL FUNDS LOAN. PROCUREMENT WOULD BE CONDUCTED BY QUOTE COMPETITIVE BIDDING AMONG CANADIAN SUPPLIERS, IN ACCORDANCE GENERALLY WITH PROCEDURES USUALLY ADOPTED FOR PROCUREMENT UNDER CANADA'S BILATERAL AID ARRANGEMENTS UNQUOTE. IF, HOWEVER, BANK CONSIDERS PRICES QUOTED BY CANADIAN SUPPLIERS ARE NOT REASONABLE, BANK WOULD REVERT TO INTERNATIONAL COMPETITIVE BIDDING AMONG ALL ELIGIBLE SOURCE COUNTRIES. CANADIAN GOVERNMENT HAS FORMALLY CONFIRMED ITS WILLINGNESS TO ACCEPT AND PAKISTAN AUTHORITIES ARE ALSO READY TO ACCEPTE ABOVE ARRANGEMENTS.

6. BEGIN COMMENT: USADB RECOGNIZES THAT PROPOSED ARRANGEMENT WOULD PERMIT PRECLUSIVE BIDDING UNDER BANK'S RPROCUREMENT PROCEDURES FOR FIRST TIME, EVEN THOUGH ON A ONE-TIME BASIS AND ONLY IN REGARD TO LOANS FROM BANK'S SPECIAL FUNDS RESOURCES. AS DOCUMENT POINTS OUT, BANK'S PROCUREMENT GUIDELINES, WHICH INCORPORATE PRINCIPLE OF INTERNATIONAL COMPETITIVE BIDDING, REFER ONLY TO LOANS FROM BANK'S ORDINARY CAPITAL RESOURCES. WHILE THERE IS NO FORMAL POLICY DECISION ON PROCUREMENT UNDER SPECIAL FUNDS LOANS, PRACTICE HAS BEEN TO APPLY ON CASE-BY-CASE BASIS GENERAL PROVISIONS OF PROCUREMENT GUIDELINES TO EACH SUCH LOAN.

7. IN THIS REGARD, IT SHOULD BE NOTED THAT A SUBSTANTIAL PORTION OF TOTAL RESOURCES AVAILABLE TO FINANCE PROCURE-
MENT UNDER BANK'S SPECIAL FUNDS LOANS HAS TYING RESTRIC-
TIONS (I.E., RESOURCES RECEIVED UNDER FIRST STAGE OF
INITIAL ADF MOBILIZATION SCHEME), PARTICULARLY U.S. CON-
TRIBUTION. HENCE, SIMILAR SITUATION CAN (AND VERY POSSIBLY
WILL) ARISE IN FUTURE.

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8. AUTHORIZATION FOR BANK TO PROCEED TO CARRY OUT PRO-
POSED PROCEDURE COULD THUS PROVIDE PRECEDENT FRO SUBSEQUENT
APPROACH TO UNITED STATES FOR SIMILAR ARRANGEMENT,
INCLUDING UNTYING ELEMENT AS QUID PRO QUO. NEVERTHELESS,
USADB CONSIDERS THAT CANADIAN SITUATION CAN BE JUDGED
ON ITS OWN MERITS AND RECOMMENDS NAC APPROVAL.
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